

Attachment A

DECLARATION OF

JOHN C. KLICK

AND

JULIE A. MURPHY

1. We ~~are~~ John C. **Klick** and Julie A. Murphy. We ~~are~~, respectively, Senior Managing Director and Manager of **FTI Consulting, Inc.**'s Network Industries Strategies group, with offices located at 1201 I Street, N.W. Washington, D.C. 20005.
2. Since passage of the Telecommunications Act of 1996, we have been heavily involved in the analysis and development of telecommunications cost models for both regulatory and normal-course-of-business decision-making by telecommunications companies. Mr. **Klick** has testified dozens of times before state regulatory commissions regarding cost models in addition to testifying before the FCC on several occasions regarding local competition. More detailed statements of our qualifications are set forth in Exhibits **1** and **2**, respectively, to this declaration.
3. At the request of **Alascom, Inc.**, we have prepared this declaration in support of the concurrently filed request for waiver for Alascom, Inc.¹

¹ See AAD 94-119, *In the Matter of Alascom, Inc. Cost Allocation Plan for the Separation of Bush and Non-Bush Costs*, Cost Allocation Plan of Alascom, Inc., filed July 3, 1995.

I. INTRODUCTION

4. At Alascom's request, we were asked to review the computer process used to generate its CAP-based rates for prior years. This request was made now for several reasons, which we discuss briefly in this introduction.
5. First, Alascom has now had several years of experience in calculating rates using the CAP, which makes it a good time to assess the extent to which the **CAP** is functioning as it was intended. In designing costing processes, analysts attempt to determine appropriate allocation procedures, to foresee data anomalies and the way in which operations and markets will change over time, and to anticipate how demands on the costing process are likely to evolve. But it is important, after a few years of hands-on experience, to assess whether the process is functioning as it was intended to.
6. As we explain in paragraphs **17-19** below, there is evidence that the data underlying the CAP model designed by Alascom more than seven years ago, and the telecommunications market in which Alascom operates, have changed dramatically. For example, there have been dramatic increases in the use of calling cards, wireless telecommunications, and the Internet since the CAP was designed. These changes almost certainly will continue to accelerate in the future. For example, there are concerns raised by the nature of the market in which Alascom operates that could affect the way in which the **CAP** should be conceived and constructed. A good example is the emergence of significant cell phone use for interstate and intrastate calls in Alaska. Since **1994**, the number of cell phone subscribers and cell sites in the US have increased by **740%** (16 to

134.6 million) and 923%(12,841 to 131,350), respectively.’ Because both Alascom and its competitors offer cell phone service, because there are cells of competitors located in areas that the FCC has designated as “Bush” locations, and because there are transport and switching implications that are a function of how an individual cell phone is used (imagine a competitor’s cell phone customer using a phone based in a local exchange that is in a Bush location being used to make an interstate call to the continental U.S. from Anchorage – a non-Bush location), it is appropriate for Alascom to take a step backward and reconsider how these cell phone calls ~~are~~ reflected in the data input to the CAP to ensure that today it is capturing cell phone traffic in a way that is consistent with the design of the original CAP.

7. Second, it is a fundamental tenet of effective regulation that the benefits of a regulatory scheme must outweigh the costs of compliance.’ In ~~an~~ environment that has put unprecedented financial pressure on telecommunications companies – such ~~as~~ the environment that has existed in the United States over the past three ~~years – these considerations become critical to long-term~~ survival; As we explain in Section III, any remaining benefits of the current Alascom CAP do not appear to justify the costs of continuing to employ the current process.
8. Third, there are emerging problems with the data upon which the current CAP relies. These problems, which break down into three categories, are described in more detail in Section IV. First, when the CAP was established in 1995, Alascom was able to directly assign or directly attribute approximately 93 percent of its

² CTIA Semi-Annual Wireless Survey, 2002. <http://www.wow-com.com/industry/stats/>

³ See, Railroad Accounting Principles Board practicality principle; RAPB Final Report, Volume 2. Paperwork Reduction Act, 44 U.S.C. § 3501.

investment and expenses to Bush and non-Bush locations. By **2001**, that percentage declined considerably. Second, due to the retirement of the Alascom employee responsible for compiling the data relied upon by the **CAP**, none of the usage data required by the model was collected for the period October **2001** through July **2002**. This means that nine months of the twelve month period (*i.e.*, July **2001** through June **2002**) that would be relied upon for a **2002** run under normal circumstances are not available.

9. When this individual left the company, Alascom sought to employ alternative approaches to compiling these data. Unfortunately, these efforts were unsuccessful, because the effort requires a combination of familiarity with the creation and storage of the data, an understanding of the **CAP** input process, and excellent computer skills – a combination that Alascom could not find or develop. As a result, this individual was persuaded to rejoin the company in July of **2002**. Furthermore, these data cannot be feasibly retrieved from back-up databases. Alascom investigated the possibility of extrapolating from the last four months of **2002**, but concluded that this was less reliable than simply extending the application of the **2002** rates – and we agree. Finally, embedded in the code of the **CAP** are a number of "hard-coded" allocations that evidently are based on historical data that *are* increasingly out of date.
10. Because of the confluence of these factors, and the additional reasons set forth in Section V, we conclude that while Alascom undertakes this review it would be appropriate to continue to employ, in **2003**, the tariff rates that were in effect in **2002**.

II. SEVERAL YEARS' EXPERIENCE SUGGESTS THAT THE CAP MAY NOT CONTINUE TO FUNCTION AS ANTICIPATED

11. **As** noted in the introduction, Alascom now has several years' experience in actually applying the CAP process, and that experience suggests that the process may be beginning to function in ways not anticipated at the time it was proposed in 1995.
12. First, at the time it was designed, the CAP was capable of directly assigning or directly attributing approximately **93** percent of the expense and investment dollars that comprise its costs of service to either Bush or non-Bush categories. However, that ability to directly assign/attribute investment and expenses has declined because larger amounts of depreciation and operating expenses are booked to a generic or un-assignable administrative (CLLI) code since the original CAP instead of having very detailed cost data for individual locations or cost functions. Since the original CAP, **and** in the 2001 run of the CAP process, ~~Alascom was able to directly assign or directly attribute a much lower percent of~~ investment and expenses than in prior years. For example, in 2001, nearly 25% of the operating expenses were booked to generic or un-assignable administrative accounts (CLLI codes), which more than tripled indirect or common allocations. The outdated CAP process "directly attributed" these un-assignable expenses to Bush and non-Bush locations, while they do not reflect a specific location or network element. In addition, the vast of majority depreciation expense and accumulated depreciation in the 2001 CAP model was also booked to a generic or

unassignable administrative (CLLI) code for reasons explained above. Alascom used the prior year's distribution to allocate these accounts to individual CLOCs.⁴ While we are unable to precisely estimate the total costs allocated (versus directly assigned or directly attributed), over time a larger portion of the CAP has been allocated to Bush and non-Bush locations.

13. Furthermore, the percentage of investment and expenses that are directly assigned (as opposed to directly attributed or allocated) has declined significantly, as demonstrated in the following table because less costs are booked to the accounts that are directly assignable than was observed in the original CAP filing. In other words, Alascom has changed its investment and expense patterns over the past decade. The 2001 CAP model directly assigned approximately 8 percent of the CAP costs, which is approximately 60% less than the directly assignable costs

Comparison of Directly Assignable Costs for the CAP Model

	2001 CAP Model				Percent Directly Assignable	Percent Difference from 1998 Model
	Directly Assignable	Directly Attributable	Allocated	Total		
Net Plant Investment Allocator	32,007,372	236,266,832	3,555,408	271,829,612	11.77%	-49.2%
Expense Allocator	<u>8,663,102</u>	<u>171,352,595</u>	<u>75,373,252</u>	<u>205,388,949</u>	<u>4.22%</u>	<u>-35.8%</u>
	40,670,474	407,619,427	25,373,252	473,663,153	8.59%	-46.4%
	1998 CAP Model				Percent Directly Assignable	
	Directly Assignable	Directly Attributable	Allocated	Total		
Net Plant Investment Allocator	62,490,842	198,683,483	8,437,430	269,611,755	23.18%	
Expense Allocator	<u>13,420,616</u>	<u>168,819,484</u>	<u>21,955,012</u>	<u>204,195,112</u>	<u>6.57%</u>	
Total	75,911,458	367,502,967	30,392,443	473,806,868	16.02%	

⁴ A CLOC is defined as a cost location code. These codes were originally designed and maintained by Pacific Telecom, Inc. ("PTI") to track Alascom's investment and expenses by geographic location or function in the normal course of business. To our knowledge no other interexchange carrier retains and tracks information on this detailed level.

observed in the original **CAP** model (20%).⁵ Because a key focus of the original CAP was that it directly assigned or directly attributed a high proportion of the cost of service, this decline suggests that increasingly the **CAP** process is diverging from its original concept.

14. Since the original **CAP** model was constructed, there has been a decline in the proportion of investment and expenses that is directly assignable. The structure of the CAP software, itself, makes it difficult today to understand, conceptually, how the model is functioning – which obviously is a first step in ascertaining whether it continues to function as designed, in part because it was developed by consultants to Alascom's former parent company to address its operations, not those of AT&T. For example, the model reports Part 32 balance sheet and expense data for all **CLOC** locations as hard-coded numbers, which sheds no light on the underlying basis for the assignment of dollars to specific geographic or functional locations. Similarly, the separations portion of the model includes worksheets (titled “ G through “Y”) that contain many hard-coded **zeros**, which have the effect of allocating none of the sub accounts to various interstate, intrastate or other categories.
15. Because the process was designed by an outside vendor hired by the predecessor owner of Alascom, *i.e.*, PTI, and because of retirements and other force reductions at both Alascom and AT&T, there is no institutional memory related to the actual development of the **CAP** process (although, of course, there currently are personnel who know how to collect data and input it into the CAP process).

⁵ For all of the reasons described above, the directly assignable costs are likely to be even lower, since Alascom allocated the 2001 depreciation expense and accumulated depreciation by the historic distribution of these accounts for individual **CLOCs**.

As a result, efforts to understand the original rationale for ~~certain~~ assumptions and calculations requires a *de novo* examination of the code and the input data in an effort to infer what the model designers originally intended. Because these consultants were originally retained by PTT, there ~~is no~~ ability to obtain assistance from the model developers.

16. Finally, as **discussed** above, significant changes in the nature of the interstate traffic between ~~Alaska~~ and the lower 48 ~~states~~ have begun to emerge that **suggest** a legitimate need to investigate whether the process still functions as it was originally intended to. **This** comparison demonstrates dramatic shifts in demand

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for the network, as measured by the *CAP* process.

17. For example, there ~~has~~ been a dramatic shift away ~~from 0+~~ calls (and 1+ calls) to calling card and prepaid calling card calls (~~and~~ other 800 *CALL ATT* calls). ~~Due~~

to steep price cuts and increased consumer offerings, the nationwide market for calling cards has grown rapidly, ~~from~~ \$12 million in 1992 to \$4.17 billion in 1999, and it is estimated to grow as large as \$10 billion business in 2002. This trend has not by-passed Alaska, and a shift towards calling cards is at least partially responsible for the dramatic increase we observe in the above table in “Total Switched Originating 800 and Terminating Interstate” calls, and the simultaneous decline in intrastate and originating interstate calls. These different call types each require a different mix of data base lookups and operator assistance, and dramatic changes in the mix of call types could affect the most appropriate way in which to directly attribute certain expense sub-accounts. Furthermore, it is possible that calls to calling card platforms in the L48 might actually double-count the minutes fed to the CAP process as a result of the call process that is used by Alascom. Specifically, each leg of an intrastate call (to and from the calling card platform in the lower 48 states) is treated as a separate 800 call in tabulating minutes for the CAP model. The effect of this phenomenon would understate Alascom’s rate and recovery from the Tariff 11.

18. Similarly, the increasing use of cell phones to make interstate calls ~~from~~ Alaska calls into question not only the fundamental definition of Bush and non-Bush that underlies the existing CAP, but also raises questions about the assumptions in the CAP for directly attributing certain expenses. Over the past decade, national cell phone usage has exploded. Since 1994, the number of cell phone subscribers and cell sites in the US have increased by 740% (16 to 134.6 million) and 923%

(12,841 to 131,350), respectively.⁶ While a cell-to-cell call simply displaces the typical landline call, and in some instances may not appear as part of Alascom's network traffic data, calls originating from a cell phone and terminating on a landline phone (or vice versa) may appear on Alascom's network. For example, consider a cell phone user with an Anchorage NXX code (229) who makes a call from Bethel to Anchorage. Since the switch identifies the call by originating and terminating NXX codes, this call would appear on the Alascom records as a local Anchorage call. In addition, calls from cell phones bearing ANIs from the lower 48 states would be recorded by Alascom as originating at the "home" cell phone location.

19. There are also a number of other market factors that have changed since the CAP was first designed. For example, Alaska, as well as the rest of the US, has observed the explosive demand in Internet access, which can conceivably create non-traditional competition in the long distance market through Voice over Internet Protocol ("VoIP"). In addition, the advent of broadband, which was effectively unknown in the early to mid-1990's has given rise to additional facilities-based competition via cable telephony, which was not envisioned when the CAP was designed. While still nascent, cable telephony is projected to observe significant growth, and it is worth noting that GCI owns most of the cable television systems operating in Alaska. These factors can alter the use of Alascom's network and affect the degree to which the CAP is used by other market participants.

⁶ CTIA Semi-Annual Wireless Survey. 2002. <http://www.wow-com.com/industry/stats/>

20. These modeling issues, alone, strongly support Alascom's view that it is necessary to re-examine the cost allocation **assumptions** and calculations instead of blindly continuing to employ the CAP for 2003 and future years.

III. THE CURRENT CAP PROCESS IS UNDULY RESOURCE INTENSIVE

21. The current CAP was initially designed to create cost-based tariff rates that would be available to competitors that might **seek** to enter into the Alaskan interstate market. The CAP was actually conceived in anticipation of AT&T competing with Alascom—but since AT&T purchased Alascom this basis no **longer** exists. While there has been a dramatic increase in competition in Alaska,⁷ however, approximately 97 percent of the dollars paid under the CAP-based tariff rates are paid by AT&T – Alascom's parent **company**.⁸ This strongly suggests that the principal reason for establishing the CAP in the first place has not developed as contemplated by the Commission in 1995, and therefore that there is very little reason for the FCC to require Alascom to continue to prepare these tariff filings each year.
22. While the perceived **need that** led the FCC to require Alascom to establish CAP-based rates for common carrier services in Tariff FCC No. 11 appears to have dissipated, the **CAP** process as currently designed and implemented is quite resource intensive, requiring near continuous polling of AT&T switches in

⁷ See, generally, the *Petition for Elimination of Conditions* filed by AT&T Corp. and Alascom, Inc. on March 10, 2000 at pp. 5-13.

⁸ *Ibid*, at page 21. The motion also discussed the degree of competition in Bush locations. "GCI competes directly in more than 50 Bush locations which represents approximately 74% of all originating interstate traffic carried by satellite and 63% of all originating intrastate traffic carried by satellite." In addition, Alascom provides service to its competitors (including GCI) to provide end-to-end service, which minimizes their reliance on Tariff 11.

Alaska, transmittal of ~~as~~ many as 2 million individual call records a month to cost analysts in New Jersey, and consolidation of call records into CLOC-by-CLOC **summaries** of traffic, and significant efforts to check data integrity before the process can even be run.

23. Furthermore, although the Commission once expressly *required* Alascom to design the system *so* that the definition of Bush and non-Bush locations would be modified to reflect ~~as~~ "non-Bush," locations where there was facilities-based competition, the FCC's Common Carrier Bureau subsequently froze the identity of the non-Bush locations.⁹ This, too, calls into question a key rationale underlying the development of the original CAP process."
24. Not surprisingly, however, as the long-distance market has become more competitive (both in general and in **Alaska**), ~~as~~ Alascom's market share has declined (exacerbated in **part** by the Bureau's inconsistent classification of **non-Bush** locations as Bush locations," and as access **to** capital markets by telecommunications companies has become more constrained, the **resources** that

⁹ See *Alascom, Inc., Cost Allocation Plan for the Separation of Bush and Non-Bush Costs*, Memorandum Opinion and Order Approving Cost Allocation Plan. 12 FCC Red 1991 (1997). This "freezing" of the number of Non-Bush locations explicitly impacts the CAP model. Since the directly assignable information is by definition assigned based on the outdated and inaccurate information on competitive locations, it no longer represents the cost buckets associated with the competitive and non-competitive locations.

¹⁰ Because non-Bush locations tend to be lower-cost locations (that is, facilities-based competition tends to take place first in locations where demand is highest and customer locations are most dense – factors that tend to lower cost), the effect of freezing Alascom's non-Bush locations was to put it at a competitive disadvantage, vis a vis emerging facilities-based competitors, for sale of wholesale services to third parties. This apparent effort by the FCC to explicitly subsidize entry and/or expansion of market share by Alascom's competitors – by ignoring its own earlier determination that locations be designated non-Bush locations once facilities-based competition emerged – is also at odds with established regulatory thinking, which seeks to protect competition, not competitors.

¹¹ In March 1997, Alascom filed a Petition for Review of the Bureau's decision to freeze the non-Bush locations. By early 2000, GCI completed directly with Alascom in more than 50 Bush locations which accounted for 74% of all originating interstate traffic carried by satellite. See, *Petition for Elimination of Conditions* filed by AT&T Corp. and Alascom, Inc. on March 10, 2000 at p. 21. This competition has most certainly intensified.

Alascom has available to run the CAP process have been severely reduced. More than 90% of Alaskan access line customers have at least two competitive options for interexchange carriers.¹² In addition, a significant amount of facilities-based competition has developed in Alaska. For example, GCI has 87 V-Sat locations and has both C-Band facilities and Ku-Band satellite network facilities. Since the Ku-Band V-Sat (Satellite) locations are not regulated in the same way as C-Band, GCI has been able to maneuver around the Bush facilities restriction.

25. All of this argues for elimination of the CAP-based tariff rates in their entirety, which we understand was the subject of a petition by AT&T and Alascom that was filed nearly three years ago and is still pending as we file this declaration. Our point is a narrower one, however. The FCC should conclude, based on the evidence, that CCS rates should be capped at existing rates and allow Alascom to adjust them under the rate. If, however, the FCC should conclude that, despite evidence to the contrary, it is important for Alascom to continue to publish common carrier services rates based on a cost allocation procedure, it is crucial that the Commission be realistic about the resources that Alascom can commit to that effort. Thus, it is critical to develop an alternative process that can be implemented more efficiently than the current CAP process, but one that will just and reasonable.

¹² *Ibid.*, at page 5-6. Many other competitors have entered the Alaskan interexchange market. For example, Matanuska Telephone Association, Anchorage Telephone Utility and Alaska Network Systems are a few of the significant competitors that entered since 1995.

IV. INPUT PROBLEMS

26. A third category of problems that exist with the current CAP process involves the input data used by the model. As suggested in the introduction, these problems can be subdivided into three categories, one of which is the declining percentage of investment and expenses that can be directly assigned since the original CAP, which we discussed in Section II. The other two categories of problems are (1) data problems for 2002, and (2) embedded allocation assumptions that rely on historical data.

A. Data Problems for 2002

27. A key input into the current CAP process is the polling of AT&T's two Alaska switches to retrieve, on a near continuous basis, call records for all interstate calls made from Alascom facilities. These data – which comprise approximately 20 million completed call records per month – are used both (1) as a key tool for assigning and attributing costs at each CLOC location between Bush and non-Bush, and (2) as the divisor in the rate calculations. As noted earlier, in late 2001 the individual responsible for performing this key task retired” and Alascom worked diligently to develop alternative data sources. Unfortunately, alternative sources did not materialize due to the complexity of the task and Alascom's inability to identify an individual with sufficient skills and knowledge to perform the task. As a result, these data were not collected for the last three months of 2001 and the first seven months of 2002, which include the data for nine of the twelve months that would be required to make the 2002 run of the CAP process.

¹³ That retirement did not affect the data for the 2002 rates because those data were collected from July 1, 2000 through June 30, 2001.

By July of 2002, the FCC had not acted on the AT&T/Alascom *Petition for Elimination of Conditions* and this individual was persuaded to come out of retirement, so the necessary data began once again to be collected, beginning in August of 2002.

28. Because these data were not collected **on** a real-time basis, they **are** effectively lost. AT&T transports approximately **365** million long-distance calls per business day, which are stored **on** approximately **59** files per day to **30** systems. It would be a monumental task to write the software and to search all of those records in an **effort** to identify the relatively small number **of** Alascom interstate calls that were made during the first **7** months **of** 2002.
29. When this Alascom employee retired, Alascom sought alternative ways of estimating demand for 2003. Specifically, Alascom investigated the possibility of feeding the data directly to the individuals at AT&T that had inherited responsibility for running the **CAP** process. However, the AT&T personnel were not sufficiently knowledgeable about either the nature of the call-by-call data or the assumptions that had previously been made to reduce the large volume of call-by-call data into the **summarized** input required by the *CAP* model. Alascom determined that there was **no** effective means of collecting these missing data (and no effective ~~substitute~~ for the capabilities of the retired Alascom employee, which caused Alascom to persuade him to come out of retirement). As a result, there is **no** feasible way to implement the CAP process with **2002** data. This is a second **good** reason for the Commission to continue the **2002** rates in effect in **2003** ~~until~~ Alascom can develop an alternative **CAP** approach.

B. Out-of-Date Inputs Hard-Coded in the CAP Software

30. In many instances, apparently outdated data is used in the CAP process to allocate costs of service in determining the revenue requirements. If the data originally relied upon was atypical, or if usage patterns or company expenditure patterns have changed over time – then this distribution might well be in need of modification. Examples of the types of hard-coded allocations used in the current CAP process include:

- o The classification of each CLOC as Bush or non-Bush is based on outdated and hard-coded information.¹⁴
- o Many “directly assignable” network costs including: microwave repeaters, microwave terminal repeaters and earth station terminal/repeaters are assigned to Bush and non-Bush locations by outdated information for each CLOC.¹⁵
- o The traffic and miscellaneous factors, such as dial equipment minutes and single line users, circuit mile and other factors are outdated (some of which are reported to be vintage 1994).¹⁶ These factors are used to allocate various sub-accounts of general support plant and other cost categories.
- o The study area loop and trunk circuit miles appear to be significantly outdated and may not have been updated since the CAP was developed. This study contains information on circuit miles for private line and

¹⁴ CAP 1011 after macro.wk4 at worksheet titled “Camp”.

¹⁵ CAP 1011 after macro.wk4 at worksheet titled Backbone.

¹⁶ Separations 1101 Bush.WK4 at worksheet “V”. This assumption is also used in the non-Bush and total separations spreadsheets.

message toll by interstate, state, foreign and exchange and also reports the number of pots loops. Furthermore, the outdated circuit mile data is then allocated to the interstate portion of the Company by an 86 percent allocation factor. It is our understanding the circuit equipment factor has been “frozen” since the **CAP model was** developed.”

- o The customer operations expense factors, which **are** reported on a detailed basis (messages and billing units for private line and other **services**) by state, interstate and other categories, are outdated. The resulting distributions are used to allocate other customer service accounts. (Service order contracts, billing inquiries, users **and messages**)¹⁸
- o In developing the allocation factor for interstate and intrastate for the COE Switching Equipment (**coe.3dapl**), the 1994 distribution of switching minutes FTS2000 message tolls (state foreign and interstate) appears to be used.¹⁹
- o Apparently, the separations model relies upon outdated **COIN** minutes of use **are** used to **allocate** information origination/termination equipment accounts (**iot.1damt**) between intrastate and interstate?²⁰

¹⁷ Separations 1101 Bush, WK4 at worksheet “W”. This assumption is also used in the non Bush and total separations spreadsheets. No vintage data is provided in the worksheet. According to AT&T, this sheet is not updated in the model.

¹⁸ Separations 1101 Bush, WK4 at worksheet “X”. This assumption is also used in the non Bush and total separations spreadsheets. No vintage data is provided in the worksheet. According to AT&T, this sheet is not updated in the model.

¹⁹ Separations 1101 Bush, WK4 at worksheet “J”. This assumption is also used in the non Bush and total separations spreadsheets.

²⁰ Separations 1101 Bush, WK4 at worksheet “L”. This assumption is also used in the non Bush and total separations spreadsheets. No vintage data is provided in the worksheet. According to AT&T, this sheet is not updated in the model.

- o The Bush and non-Bush percentages **used** to develop the Accumulated Deferred Federal Tax (AC 4340) are outdated and appear to be based on the 1995 study?
 - o The separations model appears to allocate Accounts 4340,6621,6623, Prop & Other Taxes, rent revenues to sub-accounts using the 1994 distribution of **sub-accounts**.²²
31. Given the extensive usage of hard-coded allocations that **are** based on historical relationships, and given the significant changes that **are** underway in the network demand characteristics of the Alascom network, it is important that the effect of relying on these older allocation inputs be fully evaluated – and the effort required to update these allocations, if appropriate, be determined – before the existing **CAP** process is applied to future years.

V. CONCLUSION AND RECOMMENDATION

32. As a threshold matter, the lack of nine month's of demand data required by the 2002 CAP process makes it impossible to reliably ~~run~~ the **CAP** process for 2002 in order to update the Tariff 11 rates for 2003. **This** fact, alone, would warrant a waiver permitting **Alascom** to maintain the 2002 rates in effect for 2003.
33. More importantly, the other factors that we **discuss** above establish that Alascom has well-founded concerns about applying the existing **CAP** process on a going-

²¹ Separations 1101 Bush.WK4 at worksheet "C". **This** assumption ~~is~~ also used in the non-Bush and total separations spreadsheets.

²² Separations 1101 Bush.WK4 at worksheet "G". This assumption is also **used** in the non Bush and total separations spreadsheets. **This** data may be vintage 1995. the table is **unclear** and lists both dates.

forward basis. There have been significant changes in the competitive environment in which Alascom operates, in the mix of resources required to provide its services, in Alascom's ability to directly assign attributable expenses, and in the very nature of the **Bush/non-Bush** distinction that was at the heart of the FCC's original requirement that Alascom establish a **CAP**. At the same time, the **CAP** has remained unchanged, and many of ~~the~~ historical relationships are hard-coded into the CAP computer code, effectively casting these relationships in stone for all time. Under these circumstances, Alascom is acting reasonably in petitioning the Commission for time to re-examine the CAP process.

34. At the same time, resource constraints that have affected all telecommunications carriers have eliminated most of the institutional knowledge that once existed about the rationale for many of the CAP's assumptions and computations, and the current CAP computer structure makes it difficult to analyze and infer the model developers' intentions.
35. Finally, these ~~same~~ resource constraints have rendered it increasingly difficult for Alascom to run the existing CAP process each year. **Thus**, it is logical to seek to develop a reliable but less resource-intensive process for performing this task ~~if~~ the FCC should conclude that it remains necessary.
36. Under this unprecedented collection of circumstances, the soundest regulatory approach would be for the FCC to permit the **2002** Tariff 11 rates to remain in effect in **2003**, giving Alascom the time required to evaluate and revamp the CAP process so that it can be applied efficiently and reliably in the future, subject to FCC review and approval. In other contexts, the FCC has recognized that cost

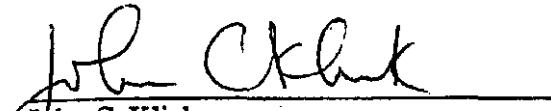
modeling of telecommunications networks must evolve to accommodate the dynamic nature of network demands and facilities.²³ Those same considerations argue strongly for accepting the fact that data is not sufficient to re-run the model for 2002, that the process itself is almost certainly out of step with the current circumstances faced by Alascom, and permitting Alascom time to develop a more efficient and relevant cost allocation process for the future..

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²³ “We also recognize, however, that the model must evolve as technology and other conditions change.” In the Matter of Federal-State Joint Board on Universal Service Forward-Looking Mechanism for High Cost Support for Non-Rural LECs, FCC, CC Docket No. 96-45, CC Docket No. 97-160, Tenth Report and Order, November 2, 1999, at paragraph 28.

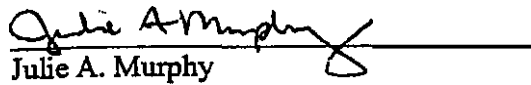
VERIFICATION PAGE

**I declare under penalty of perjury that the foregoing Declaration is true
and correct.**


John C. Klick

Executed on: January 7, 2003

**I declare under penalty of perjury that the foregoing Declaration is true
and correct.**


Julie A. Murphy

Executed on: January 7, 2003